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Statement of Oscar Johnston, Manager of the Cotton Producers Pool, Before the Senate Agricultural Committee Hearing on Cotton Exports.

Some of the persons interested in the solution of the economic problem which confronts the American cotton producer have suggested and urged as a solvent or remedy, that some form of what has come to be known as the domestic allotment plan, be applied, but that such plan permit unlimited planting and production of cotton. With the permission of the Chairman and members of this Committee, I should like to address myself to this specific problem.

It is my thought that if the decline in exports continues the plight of the American cotton producer may become so desperate as to force the application of the domestic allotment plan. If this happens, it is my very firm conviction that the plan must be accompanied by increasingly rigid, enforceable restriction of production. There is no disagreement anywhere, insofar as I know, as to the vital importance, I might say, necessity, for preserving foreign markets and foreign customers for American cotton if it can be done without impoverishing the basic producer. Cotton is essentially an export crop. Cotton was produced in America by the early colonies for more than 15 years before there was a spinning mill in America. It was produced for export and our domestic consumption was of later development. Normally, more than 55 percent of the American crop goes into export. The loss of foreign markets to this commodity means the crippling of the buying power of millions of American consumers. The importance of this crop and the magnitude of that portion which is exported, ~~makes~~ it an outstanding example of

America's needs for the restoration of normal international commerce. To preserve the export markets, it may appear necessary, through the domestic allotment plan, to subsidize cotton production to the extent necessary to enable the American product to compete with foreign growths in the markets of the world. If such a situation develops, it is my thought that it would be suicidal to attempt as a remedy the domestic allotment plan, and at the same time permit unlimited production in America.

I would call your attention to the following specific objections to an examples of the inadvisability of an allotment plan unaccompanied by production control:-

A domestic allotment plan without restriction of production is possible under the present Agricultural Adjustment Act without amendment, but the Act does not provide adequate certain means of production control, hence, such a plan if adopted, would be without production control and would of necessity meet the fate which met the efforts of the Federal Farm Board. Under the Act as presently written, if the domestic allotment plan is adopted, the Agricultural Adjustment Administration would continue to make benefit payments to producers based upon past production records by permitting them to plant and harvest cotton according to their individual ideas. If such a plan should now be put into effect, it is my judgment that the 1935 acreage would be not less than 40 million acres and that with normal climatic conditions, we might expect to harvest a crop of between 14 and 15 million bales of cotton with 17 million bales within the realm of reasonable expectations.

We have every reason to anticipate that with normal climatic conditions, a foreign growth of cotton for 1935 will be between 12 and 13 million bales. We have a world carry-over of all types of cotton amounting to approximately 14,500,000 bales. Adding an American crop of 15 million to a foreign crop of 13

million, and adding that to a carry-over of 14 million, and we have a world supply of $42\frac{1}{2}$ million bales. Such a figure would constitute a new world record for the aggregate supply of all types of cotton and would inevitably re-establish a very low price for cotton in the world markets. Even with the present gold value of the dollar, it is quite certain that such a condition as just outlined, would result in a price materially below 10 cents per pound and that the gold value of cotton in the world market would be materially below 6 cents. Such a price would cripple not only the American producer but would seriously cripple and lower the purchasing power of other producers of cotton throughout the world.

The most serious aspect of a complete relaxation of production control would undoubtedly be the renewed piling up of world cotton stocks. As a result of the Adjustment and control programs of the Triple-A to date, the world carry-over of all types of cotton will have been reduced from approximately 17 million bales, August 1, 1932, to approximately $14\frac{1}{2}$ million bales, August 1, 1935. With an export price ranging between 9 and 10 cents in terms of the American dollar, it is most improbable that the world consumption of cotton would exceed 25 million bales. Assuming this maximum consumption, and deducting it from the $42\frac{1}{2}$ million bale supply that would result as I have just indicated, would mean that the world carry-over of cotton, August 1, 1936, would be back to $17\frac{1}{2}$ million bales and the entire benefit which has resulted from the adjustment program and the sacrifices that have been made in connection therewith by producers and consumers, would have been in vain. The continued unrestricted production of cotton in this country in 1936 would inevitably result in a still further increase in world supplies and the world carry-over of cotton, thus, gradually forcing down the price at which cotton would be sold on world markets. If under these circumstances, we attempted to carry out the domestic allotment plan and sought to pay the American producer a benefit, bonus or bounty representing the difference parity price and world price on the domestically

consumed portion of his crop, it must be apparent to each of you, that the payment would increase in direct proportion as the world price decreased, thus imposing an increasingly heavy tax burden upon American consumers of cotton. To illustrate, if the export price is forced to the 9-cent level with the fair exchange value or what we have come to call the "pre-war parity" value of cotton at 15.5, it would become necessary to levy a processing tax of 6.5¢ per pound to pay the obligations occasioned by the application of the domestic allotment plan or if not paid by a processing tax, funds would have to be found by some other method of taxation. Such a situation would stimulate resentment and agitation against the entire cotton program. The suggestion that to permit an unlimited production of cotton and the free export at world price levels, would solve the farmer's problem, rests primarily upon two assumptions or hypotheses, each of which is open to serious question:-

The first of these is that the quantity of cotton consumed abroad will increase rapidly and proportionately as the price is reduced. The other is that the quantity of cotton produced in foreign countries will decrease very rapidly as competition from American cotton increases, becomes more acute, and as the price in world markets is forced downward.

The record of the past ten years indicates that neither of these assumptions is correct. As a matter of fact, the total world consumption of cotton is remarkably insensitive to price. Under present demand conditions, for example, if American cotton is exported at 8 cents per pound, it appears that the world would only consume in the neighborhood of 26 million bales, while if American cotton is offered for export at 14 cents per pound, world consumption would be reduced only by 2 million bales, to 24 million bales. It is true that the quantity exported would change between 8 and 14 cents much more than 2 million. But that would not be because of a change in consumption, but in stocks. A fact which

many observers overlook is that the increased exports at the very low price do not go into consumption, but go instead into stocks.

Thus, in 1925, when exports of American cotton increased nearly 3 million bales, the world consumption of all types of cotton increased only 1.5 million bales. Likewise in 1931, when the export of American cotton increased nearly 2 million bales, the world consumption of all types of cotton actually showed a decrease rather than an increase. To a certain extent then, increased exports of United States cotton may go into increased consumption, and to a certain extent they replace foreign cotton; but those replaced foreign cottons are still piling up in world supplies and tend to affect the price of our cotton and foreign cotton alike in subsequent years.

The effect of price on foreign acreage has also been greatly exaggerated. It is true that the world acreage of cotton has shown a gradual upward trend in the past ten years. As a matter of fact, this upward trend during the past ten years has been at a much less rapid rate than the upward trend during the decade before the War. During this recent period, however, world cotton acreage has responded to price conditions, increasing following a period of high prices as in 1922 and 1923, and decreasing following a period of low prices as in 1926 and 1931. Judging from these periods of increase and decrease, the effect of price on world acreage is far less marked than is generally assumed. Judging from the records of the past decade, the difference between an 8-cent price and a 14-cent price for American cotton, would mean a difference in foreign production the following year of less than 1 million bales, assuming average weather conditions in both years. At the present time, foreign production is running in the neighborhood of 12 to 13 million bales. If the New Orleans price were now at 8 cents, we might expect that the 1935 crop in foreign countries (with average yields) would be somewhere around 12.5 million bales, whereas if the New Orleans price were at 14 cents, past records appear to indicate that next year's crop in other countries would be more likely to

average something under 13.5 million bales. It is quite evident from these figures that forcing American cotton on the world market would not cause such a contraction in production as would promptly use up our increased production.

When studied further, the figures I have given lead to an interesting conclusion, that is, American cotton farmers would not obtain their maximum income over a series of years by an unrestricted production of cotton for export. Just as a thumb-nail indication of what the possibilities are, let me present some rough estimates:-

Let us assume that over the next 2 or 3 years we would use in this country about 6 million bales at an average price of 15.5 cents per pound, the present parity level. That would give approximately 465 million dollars as the value of the production for domestic consumption. If we were willing to export cotton at 8 cents per pound, we might expect to move into foreign consumption about 8 million bales of American cotton a year without either increasing or decreasing world carry-over. This estimate makes allowance for the effect that such a price would probably have on foreign acreage as well as on foreign consumption. To export 8 million bales at a price of 8 cents a pound, or $40.00 a bale, would produce 320 million dollars, which added to the 465 million from the domestic market, would give a gross value for the lint of about 785 million dollars.

At a price of 12 cents per pound, on the contrary, the available data indicate that something slightly over 6 million bales could be moved into export and consumption year after year--approximately 6.15 million from present information. Such an export at 60 dollars a bale would produce about 370 million dollars income from the exports, which added to 465 million dollars from the domestic consumption would give a total value for the lint, of more than 830 million dollars. Even though nearly 2 million more bales could be exported at the 8 cent, than the 12 cent level, the gross income of farmers would be over 50 million dollars less from the 8 cent cotton than from the 12¢ cotton.

When the same computations are carried through for 14 or 16 cent cotton, however, we find these higher prices would apparently shrink the quantity moved into export so greatly that the farmers' gross income would be reduced rather than increased. At the 16 cent level, it appears that probably not more than $4\frac{1}{2}$ million bales could be exported one year with another. After making allowance for the resulting shrinkage in consumption and increase in foreign production, so far as the present level of world demand is concerned, therefore, it would appear that to attempt to obtain such an export price would result in such a drastic decrease in exports as to reduce total income to farmers.

These computations should not be taken too seriously. Of course, they are merely rough approximations of what we might expect to get out of the domestic and foreign markets at various levels of price and production and under present demand conditions. If, and when business activity improves here and abroad, more cotton could be exported at more satisfactory prices. Under present demand conditions, however, it would appear that to attempt to increase the exports of cotton by great reductions in export price and by unlimited production would lower rather than raise the gross income to cotton farmers. It also appears that an attempt to "hold up " the world market by unduly increasing the price at which we offer cotton for export will not be to the benefit of our producers.

So far as the present information goes then, an export price somewhere in the range between 10 and 14 cents a pound, will produce more income for American cotton farmers than would a larger volume of exports with a materially lower price.

The program for unrestricted production for export then must be viewed as one which would tend to reduce the gross income of farmers from the cotton crop while over a series of years it would tend to rebuild the excess world supplies

of cotton and result in a material aggravation of the cotton farmer's difficulties.

One may take a broader view of the results of the proposed plan for unrestricted production by asking what its effect would be on those industries in this country engaged in the handling of cotton, and also what its effect would be on producers of cotton in foreign countries. The domestic industries involved include ginners, compresses, railroads, cotton merchants, and the export trade. As has been indicated, adding 2 million more bales to the production and export would decrease farmers' income by approximately 50 million dollars. If we take 25 dollars per bale as covering the charges which would go to the handlers of cotton for export in this country, producing and exporting the additional 2 million bales, would mean 50 million dollars more of income for them. By going to the expense and labor of producing 2 million more bales of cotton then our farmers would suffer a reduction of gross income of 50 million dollars and a reduction in net income of even more, while the handlers of cotton in this country might possibly have an increase in gross income of nearly as much as the farmers lost.

Merely the direct cash cost of picking, marketing, and ginning the cotton would run more than 3 cents per pound or $15 per bale. The additional 2 million bales would thus add at least 30 million dollars to farmers' cost, even without including the extra labor involved in preparing, planting, cultivating the additional 5 or 6 million acres required, while reducing by 50 million dollars their gross income.

It should not be overlooked, however, that the world level of cotton prices is important not only to our producers but to producers in foreign countries. Forcing our cotton into world markets at low prices would not only reduce our own income from export cotton, but would seriously reduce the income of cotton producers in India, Egypt and other countries. These countries are not only themselves markets for our products but also are very important customers for England, France

Italy and other European countries which directly take large quantities of our cotton and other products. Indirectly, then, forcing exports of our cotton on world markets would tend to restore the low prices of cotton and the low world purchasing power which characterized the bottom of the depression, and tend to check world recovery and to retard the growing foreign demand for our products.

In view of all these facts, it appears that forced exports of our cotton would increase to some extent the income of those interests in this country handlin cotton but at a cost to the farmers of the world of even more than the increased income going to these groups. Moreover, such a policy would tend to reestablish the declining market levels of farm production which characterized the world depression and thereby check and retard industrial recovery abroad as well as here.

The question is frequently raised as to whether or not the present price of cotton as compared with the price of 2 years ago, is attributable to changes in our monetary system or to the activities of the Agricultural Adjustment Administration, or both. The answer undeniably is that each of these factors has played an important part in bringing the price of cotton from 5.7 cents per pound to 12.5 cents per pound, an improvement of 6.8 cents per pound. Dr. Warren, Professor of Farm Economics, New York College of Agriculture, in a recently issued bulletin, presents a table which indicates that the relative parts in the improvement have been 60 percent due to the change in our monetary policy with respect to gold, and 40 percent to the Agricultural Adjustment Administration's programs. Some of the economists and statisticians connected with the Department of Agriculture, are inclined to the opinion that Dr. Warren has not given full effect to what would have happened had the activities of the Agricultural Adjustment Administration not intervened to prevent the enormous crops which otherwise would have been produced during each of the years, 1933 and 1934. After a careful study

of all available data, it is my judgment that it is fair to say that the present price as compared with the price of 2 years ago, is attributable 50 percent to the change in the monetary system, and 50 percent to the activities of the Triple-A. With neither of these programs, the price today would probably be not more than 5 cents per pound. Each was complimentary to the other. Neither may be regarded as a permanent remedy or preventive for, or of, the malady suffered by the cotton producer. To continue the beneficial effects which have resulted from the two programs definite fundamental action must be taken by our National Congress.

Secretary Wallace made an excellent presentation of the alternatives confronting not only the cotton producer but American agriculture. The principles discussed by him apply with equal force to all of those agricultural commodities, in fact, to all merchandise of which an appreciable part is exported. Reduced to its fundamentals, the problem of restoring the normal volume of American exports of cotton or of merchandise generally, can be permanently solved only if this nation does its part in increasing foreign purchasing power by accepting an increasing quantity of imports. The continuous and progressive devaluing of the dollar while in the first instance increasing the purchasing power of foreign countries for our exports will continue to raise, until they become insurmountable, those barriers which now make it difficult for us to purchase abroad.

I think that proposition has been made clear to this Committee. I know that the Chairman of this Committee has for many years recognized the necessity of tariff adjustments as essential to permanent prosperity in America. I feel that the nation and particularly, the cotton producers of America, owe a very genuine debt of gratitude to Secretary Wallace for his candid, persistent and continued presentation of this elemental proposition.

As realists, we must, however, face the fact that nothing has yet been accomplished which really strikes at the root of the problems created by our high

tariff policies. I do not mean to suggest that we should not continue diligently to prosecute every effort to negotiate reciprocal trade agreements, international treaties, and other efforts at international agreements and understandings, the object of all of which being to promote international trade between the United States of America and the nations of the world.

Frankness and candor force us to admit that definite accomplishments from current efforts at trade agreements and at the modification of tariff laws, are inherently slow and that whatever progress is made along these lines, if any is made, must be very gradual. I have the feeling, growing out of observation and experience, both as a producer of cotton and as an official connected, during the past 19 months, with the activities of the Federal Government, that it may be that efforts to restore the normal flow of international commerce, cannot surmount those internal policies of foreign nations which create a militant nationalism and which, in the process, cause foreign commerce to stagnate.

While listening to the very clear presentation of the problems confronting agriculture made before this Committee by Secretary Wallace, I could not help noting the apparent paradox of this nation rejecting the policy of international concourse by its rejection of the resolution authorizing participation in the activities of the World Court and then the following day, seriously undertaking to explore the possibilities of increased international commerce and trade relations. This is not here interjected as a criticism, merely an observation of a situation which appears to me as being somewhat paradoxical. I pretend to no knowledge of the international political considerations which led to the decision made by the Senate of the United States but of this fact, I am certain, that all trade and commerce, whether international or domestic, must of necessity be based upon mutual trust and confidence. If the conditions in the world in which we live do not permit the development of that confidence, then as practical men, we should frankly

face that fact. I do not know how long we can continue as a nation to be self sufficient and self contained as to both industry and agriculture, and at the same time, attempt to sell certain of our products abroad, but I do know that such a situation cannot continue indefinitely. For generations in America we have endured a double standard of living, one for the industrial laborer and one for the farm laborer. I am of the opinion that if we face this problem realistically, we will recognize that certain fundamental adjustments in our internal economy are essenta and must be made, if America is unwilling or helpless to modify her economic behavior and to conduct herself logically as a creditor nation.

In thinking of these readjustments, I have in mind the development of alternative occupations for much of the land and many of the commercial facilities now engaged with the production of marketing cotton for export.

It behooves our National Congress to continue to explore all of the possibilities of restoring and maintaining our international trade relations upon a permanent basis, but it also behooves Congress to address itself to the problem of developing new opportunities for the thousands of our people engaged in the production and marketing of agricultural products for export, unless a satisfactory solution can be developed for our international commerce. If the efforts to permanently restore international trade fail, if it is not possible for this nation with all its ingenuity to make the necessary readjustments in its tariffs and other laws and treaties so as to provide our former foreign customers with American dollars with which to buy American merchandise, I can say to you with certainty there is going to be much suffering and misery in these United States and our Government is going to be faced with social problems which by comparison will make our current difficulties seem trivial.

In my judgment, the maintenance of the Agricultural Adjustment Act as a device for aid during this period of transition, if it is transition, is important.

It is important that industry of America recognize that the greatest of all the markets of the world for American manufacturers, is America. It is important that industry in America recognize that it is dependent for its very existence upon agriculture. It is important that proper and appropriate action be taken by this Congress to bring agricultural America to a parity with industrial America.

You will be told that cotton can be grown for 6, 7, 8 or maybe 10 cents per pound. The men who tell you this have probably never plowed a furrow nor picked a lock. Most probably they are more keenly interested in volume than value. In testifying before you, I do so as a farmer who lives on the farm, who sees and knows something of the misery that has been endured by the cotton farmers for many years. I testify as one who is keenly interested in seeing it made possible for the farm laborer to live upon a plane of equality with the industrial laborer. I know how prone each of us is to feel that his own particular and peculiar suggested remedy is the proper panacea. To one man all that is necessary is to change our monetary system, to another, it is only necessary to withdraw all Governmental aid, restore the old doctrine of "laissez faire" and let the devil take the hindmost; to another, a bonus or a dole is the remedy, to another, immediate modification of tariff laws is the answer. During the past two years, I believe I have read at least a hundred wholly different and distinct plans, thoughts and ideas designed for the benefit of American agriculture. As a result of a study of these suggestions, as a result of personal experience, I should like to leave with you the thought that it is necessary for us to take such action as will bring about a restoration of normal and natural international commerce and trade relations. It is necessary to provide the farmer with adequate and proper credit to the same extent as such credit is available to industry. It is essential that the burden now being borne by agriculture, resulting from buying in a protected market and selling on an open market; must be lifted or neutralized. Until agriculture prospers in America, the depression will continue and industry will languish.

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